



WEEKLY ECONOMIC DIGEST



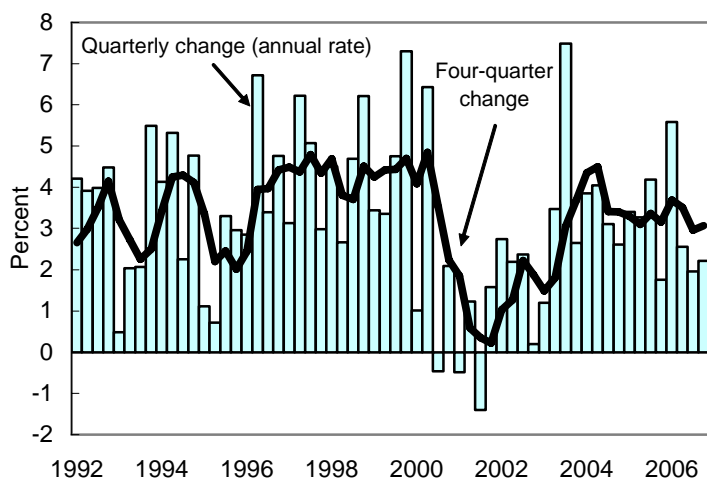
JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) — CHAIRMAN

March 2, 2007

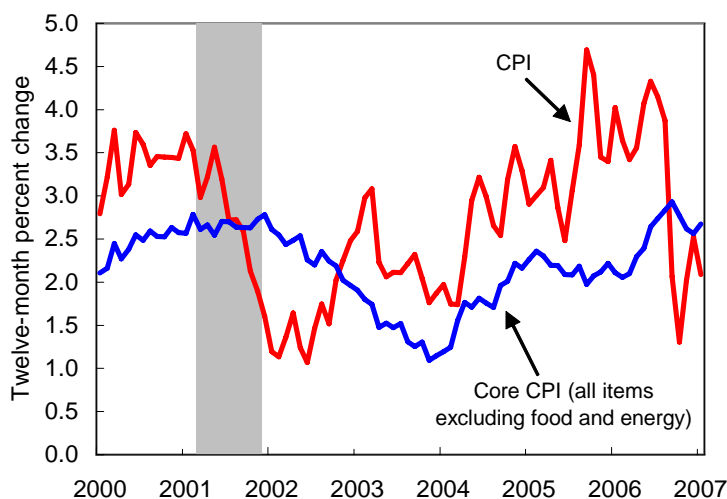
Slow Growth Continues

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Consumer Price Indexes



Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

- **The economy grew more slowly in the fourth quarter than first thought.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 2.2 percent in the fourth quarter, according to revised estimates by the Department of Commerce (see top chart). That was well below the Department's advance estimate of 3.5 percent. The revision reflects higher imports and lower consumption and investment than were first estimated. GDP grew 3.1 percent over the course of 2006, largely as the result of an unusually strong first quarter.
- **Capital goods orders fell sharply in January.** New orders for nondefense capital goods excluding aircraft fell by 6.0 percent in January. That unexpectedly sharp decline in an important indicator of future investment left orders 0.6 percent below their level a year earlier.
- **New home sales plunged in January.** Sales of new single-family homes fell by 16.6 percent in January to 937,000 units at an annual rate. That is the lowest rate in four years. Sales have fallen by 20.1 percent over the past 12 months.
- **Consumer prices rose modestly in January.** The consumer price index (CPI) rose by 0.2 percent, to a level 2.1 percent higher than it was a year earlier (see bottom chart). The core CPI (which excludes the volatile food and energy prices) rose by 0.3 percent in January, the largest rise in seven months. Over the past 12 months, the core CPI has increased by 2.7 percent.
- **Federal Reserve Chair Bernanke offered a calming assessment of recent events.** Despite evidence of slower growth, an uptick in core inflation, and a volatile week in financial markets following an abrupt selling-spree in China's equity market, Fed Chairman Bernanke testified this week that "taking all the new data into account, there is really no material change in our expectations for the U.S. economy." The Federal Reserve expects some firming in economic growth by mid-year.

The Economy at a Glance	Feb	Jan	Dec	Nov	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
Economic Activity										
Real GDP (% growth)	—	—	—	—	2.2	2.0	2.6	5.6	3.3	3.2
Industrial Production (% growth)	n.a.	-5.8	6.2	-1.2	-0.8	4.0	6.5	5.0	4.0	3.2
Capacity Utilization (level, %)	n.a.	81.2	81.8	81.5	81.7	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)*	n.a.	4.6	4.5	4.5	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)	n.a.	1408	1643	1565	1562	1714	1873	2123	1818	2073
Real Disposable Personal Income (% growth)	n.a.	6.7	1.7	3.1	5.3	3.2	-1.5	4.6	2.6	1.2
Retail Sales (% growth)	n.a.	-0.1	15.3	5.1	0.3	3.7	3.1	13.2	6.3	7.2
Personal Saving Rate (level, %)	n.a.	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-0.3	-1.1	-0.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	2.4	4.9	0	-2.1	3.1	5.0	1.9	3.2	3.4
Core CPI-U Inflation (% growth)	n.a.	3.7	1.2	1.2	1.9	3.0	3.3	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	3.2	4.1	3.6	2.4	3.1	3.3
Output per hour (% growth)*	—	—	—	—	3.0	-0.1	1.2	4.3	2.1	2.3
Financial Markets										
T-bill Rate, 3-month (level, %)	5.03	4.98	4.85	4.94	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.72	4.76	4.56	4.60	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.27	5.25	5.24	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12631	12513	12378	12185	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

*Subject to revision over the next week.

Upcoming Economic Releases:

- **Productivity and Costs: Fourth Quarter 2006 (Revised)** [Release: Tuesday, March 6]
- **Full Report on Manufacturers' Shipments, Inventories, and Orders: January 2007** [Release: Tuesday, March 6]
- **Flow of Funds Accounts of the United States: Flows and Outstandings, Fourth Quarter 2006** [Release: Wednesday, March 7]
- **Consumer Credit: January 2007** [Release: Wednesday, March 7]
- **The Employment Situation: February 2007** [Release: Friday, March 9]
- **U.S. International Trade in Goods and Services: January 2007** [Release: Friday, March 9]